

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: October 8, 2007
To: Richard D. Nyklewicz, Jr., Chairman, Finance and Audit Committee
From: Jerome J. Heer, Director of Audits
Subject: 2008 Health Care Budget

As the County Board deliberates on the 2008 budget, it is appropriate to highlight recent activity regarding one of the most significant components of the Milwaukee County operating budget, health care costs.

At the beginning of 2006, this government was facing continued increases in health care costs at a rate far in excess of inflation. Indeed, from 2002 through 2005, these costs rose from \$81.5 million to \$120.2 million, an increase of 47.5%. Further, two key variables put the County on a path of continued double-digit increases. The first was failure to resolve health care benefit issues as part of labor negotiations with the County's largest union. The second was a decision to move the County's employee and retiree health care program from a self-insured model to a fully-inured model.

Labor negotiations affecting the County's largest union was effectively resolved under the leadership of the Personnel Committee with the cooperation of the Finance and Audit Committee as well as the Board Chairman and Members of the County Board. An overall cost saving strategy was developed by the Committee and implemented by County administrators with concurrence of the County Executive and Labor. As a result of government-wide implementation of these changes, annual health care costs were reduced by about \$12.5 million (assuming maximum allowable increase of approximately 15.8% under former fully insured administrative contract).

The second major step in containing health care costs was the Finance and Audit Committee's creation of the Health Care Workgroup. This group of administrative and legislative staff worked with a consultant to revisit the flawed fully insured health care program. With the cooperation of WPS, the third party administrator, the Workgroup was successful in negotiating a return to a self-insured program. As a result, we estimate that approximately \$10.5 million in savings will be realized for 2007 (again, assuming the increase of 15.8% under the former contract).

Combined, these two initiatives put the County in a position to achieve savings of approximately \$25.8 million for 2008 when compared to what costs could have reached without benefit design changes and without the return to a self-insured model.

If you have any questions, please contact me at 278-4206.

Jerome J. Heer

JJH/cah

cc: Milwaukee County Board of Supervisors
Steve Cady, Fiscal & Budget Analyst, County Board
Delores Hervey, Chief Committee Clerk, County Board